Irving Trust Company A Charter New York Bank
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Economic Research
& Planning Division

Financial Markets

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Once again the credit markets were marked by large price movements as they first reacted adversely to the political crisis in Iran, then strengthened dramatically in response to heightened expectations of economic and monetary slowdown. Activity was relatively uneventful in light trading through the Election Day holiday on Tuesday; but on Wednesday, prices fell sharply, as the markets assessed the inflationary potential of a severe cutback in Iranian petroleum exports. In the government market, where dealers were still in the process of distributing last week's Treasury financing, bond prices fell a point or more to new lows that left the new 10 3/8's of 2009 yielding about 10.55%. Market sentiment reversed sharply on Thursday owing to unexpectedly weak money supply numbers that confirmed slower money growth in October. And with news of further layoffs in the auto industry adding to the mounting evidence of economic softening, bond prices rebounded rapidly, posting gains of 1 to 1 1/2 points.

Short-term rates moved down too, with an assist from subsiding technical pressures in the Federal funds market that permitted funds to trade down to around 13 1/2% from the 15% level of the past few weeks, though not before another record was set at this week's auction of one-year bills, which brought a rate of 11.81%, up from 11.51% in October. Three-month CD rates eased down to 14.35%. The recent figures on the Fed's new 8% marginal reserve requirements indicate that banks are raising a significant volume of funds subject to the higher reserves, with an incremental cost of funds of close to 17%. This suggests continued upward pressure on the prime rate, which is now 15 1/2% at several banks.

The behavior of reserves during the first month under the Federal Reserve's new operating procedures highlights the difficult job the Fed still faces in slowing money and credit growth. Despite a Federal funds rate that is at least 2% higher than it was in late September, one measure of reserve availability, the monetary base, has so far shown only a marginal slowdown from the rapid expansion that developed over the summer. The base was up at a 13 1/2% annual rate in October, only slightly below a 14 1/2% rate in September.

In all likelihood, the credit authorities have been trying to provide for an orderly transition to a new operating environment under the revised policy procedures, particularly since an additional $355 million in marginal reserve requirements had to be met last week. But they may have overdone it. During the last week of October, the authorities provided more than enough in the way of nonborrowed reserves to accommodate the increased reserve requirements. For now, it is too soon to evaluate the effectiveness of the Fed's shift in operating tactics toward direct control of reserves.

Glenn C. Picou

Money Market Rates

Irving Trust Company A Charter New York Bank

	11/9/79 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	15.50%	15.25%	10.75%
Effective since	11/9/79		
Discount Rate at Federal Reserve Bank	12.00	12.00	9.50
Federal Funds	13.75	14.88	9.69
Repurchase Agreements	12.25	12.00	9.50
U.S. Treasury Issues - Yields			
Bills			
3 months	12.50	12.50	9.00
6 months	13.00	13.03	10.00
1 year	12.50	12.90	10.20
Coupons			
2 years	11.89	12.10	9.42
4 years	11.18	11.45	8.90
7 years	11.05	10.90	8.84
10 years	10.75	10.80	8.85
Long Bond	10.30	10.40	8.81
Negotiable Certificates of Deposit-Secondary Market			
1 month	14.20	14.35	10.00
3 months	14.35	14.60	10.80
6 months	14.40	14.65	11.25
1 year	13.70	14.30	11.25
Bankers' Acceptances			
1 month	14.00	14.25	10.00
3 months	14.50	14.70	10.65
6 months	14.50	14.80	10.75
Eurodollar Deposits			
1 month	14.75	15.00	10.44
2 months	15.56	15.63	11.44
3 months	15.63	15.63	11.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.00	13.50	9.55
1 month	14.00	14.13	9.95
3 months	12.88	12.88	9.90
Bank Holding Companies			
1 month	13.90	14.25	9.95
Dealer Placed:			
3 months	14.25	14.40	10.30
New Aa Corporate Utility Bond	11.75	11.45	9.30
Tax Exempt			
6 month Project Notes	6.25	6.30	5.00
12 month Project Notes	6.50	6.50	5.10
20 year AAA Bond	6.75	6.70	5.70

This information represents prevailing market yields. It should not be construed as an offering. All yields are on the offered side of the market.

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